



MUSKOGEE COUNTY

Financial Audit

For the fiscal year ended June 30, 2017

Cindy Byrd, CPA
State Auditor & Inspector

**MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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Cindy Byrd, CPA | State Auditor & Inspector

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January 7, 2021

TO THE CITIZENS OF
MUSKOGEE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Muskogee County, Oklahoma for the fiscal year ended June 30, 2017. The audit was conducted in accordance with 19 O.S. § 171.

A report of this type can be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is fluid and cursive, with the first and last names clearly legible.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**MUSKOGEE COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Board of County Commissioners

District 1 – Ken Doke
District 2 – Stephen Wright
District 3 – Kenny Payne

County Assessor

Dan Ashwood

County Clerk

Dianna Cope

County Sheriff

Rob Frazier

County Treasurer

Kelly Garrett

Court Clerk

Paula Sexton

District Attorney

Orvil Loge

**MUSKOGEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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FINANCIAL SECTION

Independent Auditor's Report

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

Report on the Financial Statement

We have audited the combined total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Muskogee County, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the regulatory basis of accounting described in Note 1, and for determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statement is prepared by Muskogee County using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Muskogee County as of June 30, 2017 or changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of Muskogee County, for the year ended June 30, 2017, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statement.

Muskogee County has not presented the budgetary comparison information for the Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—General Fund or County Health Fund. Although not a part of the financial statement, such information is an integral part of the regulatory presentation for county government.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2020, on our consideration of Muskogee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muskogee County's internal control over financial reporting and compliance.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 7, 2020

REGULATORY BASIS FINANCIAL STATEMENT

MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Beginning Cash Balances July 1, 2016	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2017
Combining Information:						
County General	\$ 2,854,498	\$ 6,329,545	\$ 178	\$ 77,441	\$ 5,605,041	\$ 3,501,739
Highway Cash	4,621,244	4,011,743	135,172	41,739	4,415,271	4,311,149
County Health	2,808,360	1,590,481	-	-	1,343,318	3,055,523
Resale Property	972,324	539,327	189,133	-	618,463	1,082,321
County Sinking	10,521	47,818	-	-	-	58,339
General Obligation Bonds	14,427	820	-	-	10,941	4,306
GO Bonds - BOK Servicing Agreement	930,771	706,926	-	-	1,327,997	309,700
Sheriff Service Fee Cash Fund	165,566	709,528	33,901	-	806,679	102,316
Muskogee City/County Detention - Sheriff's Department	231,527	1,645,318	-	-	1,749,742	127,103
County Use Tax	2,094,978	394,945	-	-	99,824	2,390,099
County Sales Tax/Sheriff	584,807	1,972,605	-	-	2,033,182	524,230
County Bridge and Road Improvement	3,479,977	359,985	-	131,540	23,418	3,685,004
Muskogee County Sales Tax/Highway	2,740,328	2,104,378	-	-	2,330,807	2,513,899
Firefighters Cash/Sales Tax	2,105,473	1,219,546	-	98	1,128,159	2,196,762
Rainy Day Fund	4,000,000	5,520	-	-	91,500	3,914,020
Emergency Management Performance Grant/ST	50,508	19,595	-	-	63,343	6,760
Sheriff Reward Revolving	13,332	1,830	45,414	-	40,699	19,877
Muskogee City County Detention Grant 2	71	-	-	-	-	71
County Clerk Lien Cash Fund	29,243	31,355	54	-	28,029	32,623
Treasurer Mortgage Certification Fee	8,243	11,190	-	-	14,305	5,128
Sheriff Patrol Cash Fund	58,482	189	-	-	17,660	41,011
Assessor Visual Inspection and County Assessor Revolving Fund	45,627	5,531	-	-	13,979	37,179
Sheriff Commissary Fund	60,309	436,602	-	-	414,640	82,271
County Clerk Records Management Preservation Fund	127,073	75,117	-	-	90,279	111,911
Sheriff Drug Forfeiture	26,288	37,418	-	-	8,283	55,423
Sheriff Training	1,548	-	-	-	-	1,548
Local Law Enforcement Grant	719	-	-	-	-	719
Project Safe Neighborhood Grant	29	-	-	-	-	29
Homeland Security Grant 1 & 2	115	-	-	-	-	115
Sheriff COPS Grant	119	-	-	-	-	119
Justice Assistance Grant	8	14,999	-	-	15,000	7
Muskogee County K-9	12,419	-	-	-	2,511	9,908
Capital Improvement Plan	7,336	-	-	-	-	7,336
Emergency Management Grant Fund	4,146	-	-	-	-	4,146
Cash Drawer	530	-	-	-	-	530
County Water Improvement District 1	1,410	-	-	-	-	1,410
County Clerk Fire Department Reimbursement	18,250	12,000	-	-	11,877	18,373
Flood Plain Fund	1,718	-	-	-	-	1,718
Muskogee Fair Account	-	6,000	-	-	3,000	3,000
Grant Money Cherokee Nation	37,042	20,000	-	-	42,003	15,039
Juvenile Drug Court	993	38,007	-	-	39,000	-
County Economic Development Fund	-	1,266	-	-	-	1,266
Combined Total - All County Funds, as Restated	\$ 28,120,359	\$ 22,349,584	\$ 403,852	\$ 250,818	\$ 22,388,950	\$ 28,234,027

The notes to the financial statement are an integral part of this statement.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Muskogee County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. The general fund is the county's general operating fund, accounting for all financial resources except those required to be accounted for in another fund, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, libraries, school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

B. Fund Accounting

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the county funds included as combining information within the financial statement:

County General – accounts for revenues from the ad valorem taxes, officers' fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

Highway Cash – accounts for revenues from the state-imposed fuel taxes and disbursements are for the maintenance and construction of county roads and bridges.

County Health – accounts for revenues from ad valorem taxes, miscellaneous fees charged by the health department, and state and federal funds. Disbursements are for the operation of the county health department.

Resale Property – accounts for the collection of revenues from the interest and penalties on delinquent ad valorem taxes. Disbursed in accordance with state statute.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

County Sinking – accounts for the payments of interest and principal on long-term bonded debt and civil judgments. Debt service receipts are derived generally from a special ad valorem tax levy and from interest earned on investments on cash not immediately required for debt service payments.

General Obligation Bonds – accounts for the payment of interest and principal on the matured portion of the Muskogee County General Obligation Limited Tax Bonds that are administered by the County. Receipts are derived from industrial tenant rental payments.

GO Bonds - BOK Servicing Agreement – accounts for the payment of interest and principal on the matured portion of the Muskogee County General Obligation Limited Tax Bonds that are administered by the Bank of Oklahoma. Receipts are derived from industrial tenant rental payments.

Sheriff Service Fee Cash Fund – accounts for the collection and disbursement of Sheriff process service fees as restricted by state statute.

Muskogee City/County Detention - Sheriff's Department – accounts for revenues from law enforcement entities for the housing of prisoners. Disbursements are for the jail and any surplus in the revolving fund for administering expenses for salaries, training, equipment, or travel, or for capital expenditures.

County Use Tax – accounts for revenues from the Oklahoma Tax Commission. Disbursements are at the discrepancy of the County Commissioners.

County Sales Tax/Sheriff – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot.

County Bridge and Road Improvement – accounts for monies received from Oklahoma Department of Transportation as imposed by SB 2173. Monies are earmarked for bridges, roads, and certain improvements for roads.

Muskogee County Sales Tax/Highway – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot.

Firefighter Cash/Sales Tax – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot.

Rainy Day Fund – accounts for collections from the sale of County property and disbursed for operation of the County.

Emergency Management Performance Grant/ST – accounts for Emergency Management Performance Grants received from the U.S. Department of Homeland Security and disbursed for Emergency Management Assistance expenses.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Sheriff Reward Revolving – accounts for the collection of fines and restitution from littering and the disbursements are restricted to be used for the prevention of littering.

Muskogee City County Detention Grant 2 – accounts for Community Oriented Policing Services (COPS) grant monies received and disbursed for payroll of a school resource officer.

County Clerk Lien Cash Fund – accounts for revenues from a fee charged by the County Clerk for filing liens. Disbursements are for any lawful expense of the County Clerk's office.

Treasurer Mortgage Certification Fee – accounts for the collection of fees by the County Treasurer for mortgage tax certificates and the disbursement of the funds as restricted by state statute.

Sheriff Patrol Cash Fund – accounts for revenues from donations for reserve officers. Disbursements are for reserve officer needs.

Assessor Visual Inspection and County Assessor Revolving Fund – accounts for revenues from fees collected by the County Assessor. Disbursements are to maintain electronic databases and geographic information systems in the Assessor's office.

Sheriff Commissary Fund – accounts for the collection of fees transferred from the inmate trust account for commissary items and disbursement of funds as restricted by state statute.

County Clerk Records Management Preservation Fund – accounts for revenues from a fee charged by the County Clerk for recording instruments and interest earned on invested funds. Disbursements are for the maintenance and preservation of public records.

Sheriff Drug Forfeiture – accounts for revenues from monies seized and forfeited to the Sheriff's office. Disbursements are for the maintenance and operation of the Sheriff's drug task force.

Sheriff Training – accounts for revenues from the sale of properties forfeited in drug cases. Disbursements are for officer training, equipment, and crime prevention.

Local Law Enforcement Grant – accounts for revenues from a federal grant. Disbursements are for supplemental deputies.

Project Safe Neighborhood Grant – accounts for grant monies received and disbursed to support existing programs in law enforcement targeted at gun violence and drug abuse.

Homeland Security Grant 1 & 2 – accounts for revenues from a federal grant. Disbursements are for additional patrols by the Sheriff's office.

Sheriff COPS Grant – accounts for revenues from a federal grant. Disbursements are for payroll of Sheriff's officers.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Justice Assistance Grant – accounts for revenues are from a federal grant. Disbursements are for Sheriff patrol cars.

Muskogee County K-9 – accounts for revenues strictly from donations from individual citizens. Disbursements are for canine services.

Capital Improvement Plan – accounts for Community Development Block Grants received from the U.S. Department of Commerce and disbursed as restricted by the grant agreement.

Emergency Management Grant Fund – accounts for Emergency Management Performance Grants received from the U.S. Department of Homeland Security and disbursed as restricted by the grant agreement.

Cash Drawer – accounts for cash held by the various county offices for change funds.

County Water Improvement District 1 – accounts for revenues from a grant received for Rural Water District 1 and disbursed for the improvement of the water district.

County Clerk Fire Department Reimbursement – accounts for revenues from the Firefighters Sales Tax Board. Disbursements are for the payroll of a County Clerk employee that handles the administrations of the fire departments' disbursements.

Flood Plain Fund – accounts for fees collected for flood plain certifications and disbursed for flood plain travel and maintenance and operation.

Muskogee Fair Account – accounts for monies received from donations and grants. Disbursements are for expenses relating to the County Fair.

Grant Money Cherokee Nation – accounts for monies received from donations from Cherokee Nation. Disbursements are for expenses relating to the County Health Department Healthy Nation Program.

Juvenile Drug Court – accounts for monies received from the Oklahoma Department of Mental Health and Substance Abuse Services to be expended for the maintenance and operation of the Juvenile Drug Court.

County Economic Development Fund – accounts for the collection of lodging tax revenue and the disbursement of funds as restricted by the lodging tax resolution.

C. Basis of Accounting

The financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

recognized when the related liabilities are incurred. This regulatory basis financial presentation is not a comprehensive measure of economic condition or changes therein.

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue with all other funds included in the audit presented in the aggregate in a combining statement. However, the County has elected to present all funds included in the audit in the Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis.

D. Budget

Under current Oklahoma Statutes, a general fund and a county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved for the respective fund by office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

E. Cash and Investments

For the purposes of financial reporting, “Ending Cash Balances, June 30” includes cash and cash equivalents and investments as allowed by statutes. The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County’s books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County’s deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

The County Treasurer has been authorized by the County’s governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. The County Treasurer, according to the law, shall give notice of delinquent taxes and special assessments by publication once a week for two consecutive weeks at any time after April 1, but prior to the end of September following the year the taxes were first due and payable. Unpaid real property taxes become a lien upon said property after the treasurer has perfected the lien by public notice.

Unpaid delinquent personal property taxes are usually published in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

3. Other Information

A. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates.

B. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group

MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

As of the end of the fiscal year, there were no claims or judgments that would have a material adverse effect on the financial condition of the County; however, the outcome of any lawsuit would not be determinable.

D. Long Term Obligations

1. General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are required to be fully paid within 25 years from the date of issue.

The following table presents the general obligation bonds at June 30, 2017, and charges for the fiscal year then ended are as follows:

Bond	Interest Rates	Beginning Balance	Reduction	Ending Balance
County Lmtd Tax Bonds 1999, Series A	5.125% - 5.4%	\$ 220,000	\$ 220,000	\$ -
County Lmtd Tax Bonds 2000, Series B	7.50% - 7.00%	530,000	105,000	425,000
County Lmtd Tax Bonds 2004, Series B	7.40% - 7.30%	415,000	415,000	-
County Lmtd Tax Bonds 2006, Series A	4.50% - 6.00%	240,000	240,000	-
County Lmtd Tax Bonds 2009, Series A	5.40% - 6.75%	250,000	250,000	-
		<u>\$ 1,655,000</u>	<u>\$ 1,230,000</u>	<u>\$ 425,000</u>

During fiscal year 2017, payments included \$1,230,000 for principal, \$94,235 for interest, \$1,212 returned to business, and \$2,550 for agent fees.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Annual debt service requirements to maturity for general obligation bonds, including interest of \$59,946, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 105,000	\$ 25,996	\$ 130,996
2019	105,000	18,725	123,725
2020	105,000	11,375	116,375
2021	110,000	3,850	113,850
Total	<u>\$425,000</u>	<u>\$59,946</u>	<u>\$484,946</u>

E. Sales Tax

On November 8, 2005, the voters of Muskogee County approved a permanent excise tax of fifteen hundredths of one percent (.0015). The revenue from the sales tax is for the purpose of providing funds for the fire departments of Muskogee County, including, but not limited to: purchase of equipment, general operation and maintenance, training, construction of new buildings or improvements to existing buildings, and payment of existing or future loans.

Five percent (5%) of the fifteen hundredths percent (.0015) is designated for a newly formed Board with one member elected and representing each of the following Muskogee County fire departments: Muskogee, Boynton, Braggs, Brushy Mountain, Buckhorn, Council Hill, Fort Gibson, Gooseneck Bend, Haskell, Keefeton, Mountain View, Oktaha, Summit, Taft, Wainwright, Warner, Webber Falls, and Porum. These funds will be used for such other fire protection services as may be deemed necessary by the Board of County Commissioners.

Ninety five percent (95%) of the fifteen hundredths percent (.0015) shall be divided equally between the above-mentioned eighteen (18) fire departments to construct new fire stations or improve existing fire stations, purchase equipment and defray training and fire education costs, purchase firefighting and other emergency response vehicles and equipment and for the general maintenance and operations, with the exception of salaries and wages, for which the tax proceeds are not intended. These funds are accounted for in the Firefighters Cash/Sales Tax fund.

On July 10, 2007, the voters of Muskogee County approved an excise tax for Muskogee County on all goods and products authorized by law, in the amount of one half of one cent on the dollar (\$0.005). The tax is to commence January 1, 2008 and to terminate December 31, 2018. The revenue from the sales tax is for the purpose of improving county services as follows: 50% of the monies to go to the county roads and bridges and 50% of the monies to go to Homeland Security, courthouse security, and county law enforcement. These funds are accounted for in the Muskogee County Sales Tax/Highway and County Sales Tax/Sheriff funds.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

F. Tax Abatements

The County is subject to ad valorem tax abatements granted by the State of Oklahoma in accordance with the Oklahoma Constitution, Article 10 Section 6B for qualifying manufacturing concern—ad valorem tax exemption.

Under this program, a five-year ad valorem tax exemption exempts all real and personal property that is necessary for the manufacturing of a product and facilities engaged in research and development which meet the requirements set by the Oklahoma Constitution and statutes. Under Title 68 O.S. § 2902, in exchange for the five-year exemption, qualifying manufacturing concerns must meet certain minimum investment requirements for construction, acquisition, or expansion of a manufacturing facility. In addition, there are general minimum payroll requirements that must be met and the qualifying manufacturing concern must offer basic health benefit plans to all full-time employees within 180 days of employment.

The County had \$237,070 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2017.

The State has an Ad Valorem Reimbursement Fund in accordance with Title 62 O.S. § 193 that is used to reimburse the County for the loss of revenue. Monies apportioned to this fund by the State also may be transferred to other state funds or otherwise expended as directed by the Legislature. In the event monies apportioned to the Fund are insufficient to pay all claims for reimbursement, claims for reimbursement for loss of revenue due to manufacturing exemptions of ad valorem taxes shall be paid first, and any remaining funds shall be distributed proportionally among the counties making claims for reimbursement for loss of revenue for school district exemptions.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

G. Interfund Transfers

During the fiscal year, the County made the following transfers between cash funds:

- \$70,000 was transferred from the County General fund to the Resale Property fund for the repayment of a loan from fiscal year 2014.
- \$7,441 was transferred from the County General fund for reimbursement of expenditures. The transfers were made to the following funds:

Fund	Amount
Highway Cash	\$3,632
County Clerk Lien Cash Fund	\$54
Sheriff Reward Revolving	\$3,755

- \$131,540 was transferred from the County Bridge and Road Improvement fund to the Highway Cash fund for reimbursement for a bridge project.
- \$33,901 was transferred from the Crisis Intervention Center fund (a trust and agency fund) to the Muskogee City/County Detention Center – Sheriff’s Department fund for reimbursement of expenditures for salary purposes.
- \$98 was transferred from the Firefighters Cash/Sales Tax fund to the County General fund for reimbursement of bid publications.
- \$41,659 was transferred from the Highway Cash fund to the Sheriff Reward Revolving fund for reimbursement of the Trash Cop Salary.
- \$80 was transferred from Highway Cash fund to the County General fund for the reimbursement of expenditures.
- \$119,133 was transferred from the Excess Resale fund (a trust and agency fund) to the Resale Property fund in accordance with 68 O.S. § 3131(C).

H. Restatement of Fund Balance

During the fiscal year, the County had a reclassification of funds. The County Health fund, Highway Cash fund, Muskogee County Sales Tax/Highway fund balances were restated to correct apportionment errors that occurred in fiscal year 2016. The GO Bonds - BOK Servicing Agreement fund balance was restated to correct calculation errors of bond 2000-B and 2004-B that occurred in fiscal year 2016.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Prior year ending balance, as reported	\$28,195,148
County Funds were restated due to apportionment errors in prior fiscal year:	
County Health fund	(68,102)
Highway Cash fund	(327,900)
Muskogee County Sales Tax/Highway fund	327,900
GO Bonds – BOK Servicing Agreement fund	<u>(6,687)</u>
Prior year ending balance, as restated	<u>\$28,120,359</u>

SUPPLEMENTARY INFORMATION

MUSKOGEE COUNTY, OKLAHOMA
NOTE TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

1. Budgetary Schedules

The Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund and Health Fund have not been presented. Therefore, the legally adopted budget cannot be compared with actual data for the General Fund. The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund and the County Health Department Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year unencumbered appropriations lapse.

INTERNAL CONTROL AND COMPLIANCE SECTION

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined total—all funds of the accompanying Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) of Muskogee County, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statement, which collectively comprises Muskogee County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated December 7, 2020.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2017, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Muskogee County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Muskogee County's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskogee County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.



A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2017-001, 2017-005, 2017-006, 2017-011 2017-013.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2017-004, 2017-007, 2017-008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muskogee County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters regarding statutory compliance that we reported to the management of Muskogee County, which are included in Section 2 of the schedule of findings and responses contained in this report.

Muskogee County's Response to Findings

Muskogee County's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Muskogee County's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 7, 2020

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION 1—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finding 2017-001 – Lack of County–Wide Internal Controls (Repeat Finding - 2008-022, 2009-021, 2010-023, 2011-001, 2012-001, 2013-001, 2014-001, 2015-001, 2016-001)

Condition: Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Cause of Condition: Policies and procedures have not been designed and implemented to address the risks of the County.

Effect of Condition: Without an adequate system of county-wide controls, there is greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends that the County design and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively. OSAI also recommends that the County design and implement monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County’s policies and procedures handbook.

Management Response:

Chairman of the Board of County Commissioners: Muskogee County is now having and documenting regularly scheduled risk assessment meetings.

County Treasurer: Since taking office in July 2019 all County officials have met and discussed findings. We are now holding risk assessment meetings to discuss the operations of the county as a whole to identify and address any issues that may have or may arise.

County Clerk: Muskogee County is now having risk assessment meetings.

Criteria: The United States Government Accountability Office’s *Standards for Internal Control in the Federal Government* (2014 version) aided in guiding our assessments and conclusion. Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices and may be applied as a framework for an internal control system for state, local, and quasi-governmental entities.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The GAO Standards – Section 1 – Fundamental Concepts of Internal Controls – OV1.01 states in part:

Definition of Internal Controls

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.04 states in part:

Components, Principles, and Attributes

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

Information and Communication - The quality information management and personnel communicate and use to support the internal control system.

Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews

Finding 2017-004 – Transfer of Funds by Purchase Orders and Noncompliance with State Statutes (Repeat Finding 2016-004)

Condition: During the review of disbursements, it was noted that the County had issued eighteen (18) purchase orders between cash funds for various reasons, and subsequently those funds were miscellaneous receipted by the County Treasurer's office which resulted in overstatements of both revenues and expenditures in the amount of \$215,436.

Three (3) purchase orders were issued for reimbursement within the same fund.

- One (1) was issued for \$312 from the County Health fund to the County Health fund.
- Two (2) were issued for \$405 from the Highway Cash fund to the Highway Cash fund.

Seven (7) purchase orders were issued for various reimbursement reasons between the following funds:

- One (1) was issued for \$54 from County General fund to County Clerk Lien Cash Fund for plat book.
- Four (4) were issued for \$98 from Firefighter Cash/Sales Tax fund to County General fund for bid publication.
- One (1) was issued for \$80 from Highway Cash to County General fund for a reimbursement to District 1.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

- One (1) was issued for \$131,540 from County Bridge & Road Improvement fund to Highway Cash for bridge project.

Eight (8) purchase orders were issued for payroll reimbursement between the following funds:

- One (1) was issued for \$3,632 from County General fund into Highway Cash fund.
- One (1) was issued for \$3,755 from County General fund into Sheriff Reward Revolving fund.
- Three (3) were issued for \$41,659 from Highway Cash fund to Sheriff Reward Revolving fund for environmental deputy salary.
- Three (3) were issued for \$33,901 from the Crisis Intervention Center fund (a trust and agency fund) to Sheriff Service Fee Cash Fund.

Cause of Condition: Policies and procedures have not been designed and implemented over the disbursement process to strengthen internal controls and ensure compliance with state statutes regarding the disbursement process.

Effect of Condition: These conditions resulted in noncompliance with state statutes, unrecorded transactions, inaccurate records, and undetected errors and could result in misappropriation of funds.

Recommendation: OSAI recommends that the County design and implement policies and procedures to ensure all disbursements are allowable per state statutes. Additionally, any and all transfers between funds should be made for those limited specific purposes as set forth in state statutes.

Management Response:

Chairman of the Board of County Commissioners: We are now aware that it is unacceptable to issue purchase orders internally. There will be an effort going forward to use error forms or transfers to deal with problematic transactions.

County Treasurer: These errors were made prior to me taking office in July 2019, this administration immediately began implementing policies and procedures to address various issues. A procedure is now in place to recognize and address improper transactions.

County Clerk: We have changed the procedures for transferring these funds by using the error correction form.

Criteria: The GAO Standards – Section 2 – Objective of an Entity - OV2.23 states in part:

Compliance Objectives

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Further, GAO Standards – Principle 6 – Defined Objectives and Risk Tolerances - 6.05 states:

Definitions of Objectives

Management considers external requirements and internal expectations when defining objectives to enable the design of internal control. Legislators, regulators, and standard-setting bodies set external requirements by establishing the laws, regulations, and standards with which the entity is required to comply. Management identifies, understands, and incorporates these requirements into the entity's objectives. Management sets internal expectations and requirements through the established standards of conduct, oversight structure, organizational structure, and expectations of competence as part of the control environment.

Effective internal controls require that management implement procedures to ensure that purchases are made in compliance with 19 O.S. § 1505.

Title 68 O.S. § 3021, states in part, "Fourth: If at any time during the budget year it appears to the County Treasurer that there is temporarily insufficient money in a particular fund to meet the requirements of appropriation in the fund, the excise board, upon request of the county treasurer and upon notification to the county commissioners, may temporarily transfer money from one fund to any other fund with the permission of the county officer in charge of the fund that the money will be temporarily transferred from. No transfer shall be made from the debt service fund to any other fund except as may be permitted by the terms of the bond issue or applicable law. Any funds temporarily transferred shall be repaid to the original fund from which they were transferred within the fiscal year that the funds were transferred."

Finding 2017-005 – Control Environment Regarding Financial Reporting (Repeat Finding - 2013-004, 2014-004, 2015-004, 2016-002)

Condition: As part of our Risk Assessment, we interviewed the County Treasurer and office employees as to their understanding on internal controls. As part of our financial statement audit, we tested receipts, disbursements, and cash balances.

While verifying the financial statement, we noted the following concerns:

- During the fiscal year 2012 audit, it was noted that the County had transferred out monies from the General Obligation Bonds fund to a financial institution in accordance with a servicing agreement dated July 2010. The servicing agreement designates the Bank of Oklahoma (BOK) as the servicing agent to receive all note payments, bank fees, administrative fees, and default payments on certain outstanding bonds, as well as, to pay principal and interest on the outstanding debt.

Additionally, on June 22, 2015, it was noted that the County entered into a servicing agreement that designated the BOK as the servicing agent to receive all note payments, bank fees,

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

administrative fees, and default payments on certain outstanding bonds, as well as to pay principal and interest on the outstanding debt. On February 24, 25 and 26, 2016 \$181,313, \$17,300 and \$90,960 respectively; were electronically wired to BOK. However, the amounts were not deducted from the General Obligation Bonds fund on the general ledger, but rather the County Treasurer added a BOK Trust Fund bank account to the general ledger.

During fiscal year ending June 30, 2017, the GO Bonds - BOK Servicing Agreement fund was not monitored by the County Treasurer's office or other county personnel and the balance of \$309,700 was not presented on the County's financial statement. Adjusting journal entries were proposed by auditors and the financial statement was corrected.

- On July 22, 2015, a bond interest payment was issued to BOK in the amount of \$5,250 and on January 21, 2016 a principle, interest and agent fee payment was issued in the amount of \$205,250. These amounts were issued from the General Obligation LTD tax bond appropriation ledger rather than the County Sinking appropriation ledger and were not marked paid on appropriation ledger and general ledger until October 15, 2016. Adjusting journal entries were proposed by auditors and the financial statement was corrected for fiscal year 2016. However, the corrections made on the general ledger on October 15, 2016 were not accurate. The \$210,500 was marked paid out of the General Obligation LTD tax fund rather than the County Sinking fund. Adjusting journal entries were proposed by auditors and the financial statements were corrected and was corrected June 28, 2019 on the general ledger.
- While confirming investments for the fiscal year June 30, 2017, it was noted that a certificate of deposit in the amount of \$14,919 that was originally opened on June 17, 2015 was not recorded on the general ledger. Additionally, it was noted that six (6) certificates of deposits had interest incurred but not updated on investment ledger or general ledger.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the financial reporting operations of the County Treasurer's office are conducted in an effective and efficient manner.

Effect of Condition: These conditions adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably and resulted in noncompliance with state statute. Additionally, this could result in the misappropriation of county funds.

Recommendation: OSAI recommends the County be aware that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected. Management should take action to mitigate the possibility of a misstatement. OSAI further recommends that the County Treasurer's office personnel gain an understanding of the design of the internal control process and implement those controls in an effective and efficient manner.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Management Response:

Chairman of the Board of County Commissioners and County Treasurer: These errors were made prior to current County Treasurer taking office July 1, 2019. The current administration immediately implemented policies and procedures to address these issues and others.

- The \$289,573 bank account created under BOK on the general ledger has been reviewed and corrected on the general ledger.
- This issue was corrected by prior administration.
- All certificate of deposits that had no interest recorded on the general ledger have been corrected and all interest is now recorded for all certificate of deposits on the general ledger.

Criteria: The GAO Standards – Section 1 – Fundamental Concepts of Internal Controls – OV1.01 states in part:

Definition of Internal Controls

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

The GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.04 states in part:

Components, Principles, and Attributes

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

The GAO Standards - Principle 16 – Performance Monitoring Activities: 16.05 states, in part:

Internal Control System Monitoring

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations and other routine actions.

Additionally, GAO Standards - Principle 10 – Design Control Activities: 10.03 states in part:

Accurate and timely recording of transactions

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Finding 2017-006 – Lack of Internal Controls Over Presentation of Financial Statement (Repeat Finding - 2013-013, 2014-012, 2015-013, 2016-005)

Condition: The County has not designed and implemented internal controls for the presentation of the County financial statement. During the review and reconciliation of the financial statement as initially prepared by the County, we determined the preparer of the financial statement did not report accurate numbers.

The beginning balance, receipts apportioned, transfers in, transfers out, cash disbursements and ending balance were reported as \$27,943,408, \$22,097,550, \$27,719, \$541,496, \$21,506,019 and \$28,021,162 respectively. A review of the records provided by the County Treasurer determined that the actual beginning balance, receipts apportioned, transfers in, transfers out, disbursements and ending balance amounts were \$28,120,359, \$22,349,583, \$403,852, \$250,817, \$22,388,950 and \$28,234,027; this resulted in an understatement of beginning balance in the amount of \$176,951; an understatement of receipts apportioned in the amount of \$252,033; an understatement of transfers in in the amount of \$376,133; an overstatement of transfer out in the amount of \$290,679; an understatement of disbursements in the amount of \$882,931 and an understatement of the ending balance in the amount of \$212,865.

Additionally, we noted that the financial statement was not submitted to the Board of County Commissioners for acceptance and approval.

Cause of Condition: Internal controls have not been designed and implemented to ensure proper individuals take responsibility to accurately report the beginning balance, receipts apportioned, transfers in, transfers out, disbursements, and ending balance on the financial statement.

Effect of Condition: These conditions resulted in inaccurate reporting of beginning balance, cash receipts, transfers in, transfers out, cash disbursements and ending balance on the financial statement.

Recommendation: OSAI recommends the County design and implement procedures to ensure the beginning balance, receipts apportioned, transfers in, transfers out, disbursements, and ending balance are reported accurately on the financial statement.

Management Response:

Chairman Board of County Commissioners: The new County Treasurer has implemented internal controls and has designated individuals to record and prepare the financial statements.

County Treasurer: This error occurred prior to my administration which started July 1, 2019. I have implemented internal controls and have designated individuals for the recording of receipts and disbursements on the financial statement.

Criteria: The County is required to present a financial statement for each fiscal year ended June 30. Title 19 O.S. § 171 states, in part, “Unless the county elects to prepare its financial statement in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board, the county shall present their financial statements in a regulatory basis of accounting.”

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The limitations of the auditor are described in the American Institute of Certified Public Accountants Clarified Statements on Auditing Standards AU-C § 210, which states, in part:

“The concept of an independent audit requires that the auditor's role does not involve assuming management's responsibility for the preparation and fair presentation of the financial statements or assuming responsibility for the entity's related internal control and that the auditor has a reasonable expectation of obtaining the information necessary for the audit insofar as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit.”

Finding 2017-007 – Lack of Internal Controls Over the Collection, Apportionment, and Cash Balances Processes of the County Treasurer (Repeat Finding - 2011-004, 2012-004, 2013-003, 2014-003, 2015-003, 2016-006)

Condition: During our review of the County’s collection, apportionment, and cash balances processes, the following was noted:

- One employee issues receipts, balances cash drawer, performs end of day overall balancing, and prepares deposits. No one verifies the start up cash.
- The Treasurer’s office does not prepare and maintain a mail log.
- Sales tax apportionments are not recalculated by someone other than the preparer.
- Bank reconciliations are not reviewed by someone other than the preparer.
- No one views the audit log.
- Monthly reports are not submitted monthly.

Cause of Condition: Policies and procedures have not been designed and implemented to separate key functions and processes among various employees in the office, to have levels of review over the processes performed, and to ensure accurate and proper accounting of funds.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends designing and implementing internal controls that are critical functions of the office and having management review and approval of accounting functions. Additionally, we recommend that monthly reports be filed monthly with OSAI.

Management Response:

County Treasurer: These errors were made prior to this administration. Upon taking office in July 2019, we began implementing policies and procedures to correct and/or create segregation of duties and verifications. Each of these errors have been corrected or we are in the process of implementing the changes.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Criteria: The GAO Standards – Principal 10 – Design Control Activities – 10.03 states part:

Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principal 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

Finding 2017-008 – Lack of Internal Controls and Noncompliance Over Apportionment of Motor Vehicle Tax Collections

Condition: Upon inquiry, observation, and testing of motor vehicle tax collections the following was noted:

- \$160,177 from motor vehicle collections county road fund were erroneously apportioned into the County General fund rather than Highway Cash fund.
- \$20,868 from motor vehicle collections cities and towns were erroneously apportioned into the County General fund rather than Cities and Towns fund, a trust and agency fund.

Cause of Condition: Policies and procedures have not been designed and implemented to verify or review that revenues received were apportioned correctly.

Effect of Condition: This condition resulted in noncompliance with state statute, undetected errors and a misappropriation of funds.

**MUSKOGEE COUNTY, OKLAHOMA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Recommendation: OSAI recommends that the duties of allocating and apportioning motor vehicle tax collections be reviewed and documented by someone other than the preparer.

Management Response:

County Treasurer: This error was made prior to my administration. I took office July 2019, and we immediately began addressing errors, this has been corrected.

Chairman of the Board of County Commissioners: This apportionment mistake took place prior to the currently elected County Treasurer. Our new Treasurer has corrected this issue; monies have been moved back to the proper accounts.

Criteria: The GAO Standards - Principle 16 – Performance Monitoring Activities: 16.05 states, in part:

Internal Control System Monitoring

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations and other routine actions.

Title 47 O.S. § 1104 (A) states, “Unless otherwise provided by law, all fees, taxes and penalties collected or received pursuant to the Oklahoma Vehicle License and Registration Act or Section 1-101 et seq. of this title shall be apportioned and distributed monthly by the Oklahoma Tax Commission in accordance with this section.”

Finding 2017-011 – Reconciliation of Appropriation Ledger to General Ledger (Repeat Finding - 2011-016, 2012-011, 2013-008, 2014-009, 2015-008, 2016-015)

Condition: The County Clerk does not reconcile the appropriation ledger to the County Treasurer’s general ledger. They do not reconcile apportionments to appropriations, warrants registered to warrants issued, and balances of all funds monthly.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the reconciliation of the County Clerk’s appropriation ledger to the County Treasurer’s general ledger.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends management take steps to ensure reconciliations are performed between the funds presented on the County Clerk’s appropriation ledger and the County Treasurer’s general ledger monthly. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.

**MUSKOGEE COUNTY, OKLAHOMA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Management Response:

County Clerk: Several attempts were made and documented to balance in the past. We now have a new administration and they are trying to balance with the County Clerk's office on a regular basis.

County Treasurer: This error was made by prior administration. Upon taking office in July 2019, this administration immediately began implementing policies and procedures to correct and/or create reconciliation procedures. This administration reconciles with the County Clerk on a monthly basis.

Criteria: The GAO Standards - Principle 16 – Performance Monitoring Activities: 16.05 states, in part:

Internal Control System Monitoring

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations and other routine actions.

Finding 2017-013 – Lack of Segregation of Duties Over the Payroll Process (Repeat Finding 2016-013)

Condition: Upon inquiry and observation of the County's payroll process, it was noted that the Payroll clerk enrolls new employees, reviews the payroll claims, calculates amounts to be paid to the employees and payroll related agencies, makes payroll changes in the system, and prints payroll warrants.

Furthermore, payroll entered into the computer system is not reviewed by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Clerk's office with regard to the payroll process.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends management be aware of this condition and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office and having management review and approval of accounting functions.

Also, OSAI recommends that all payroll and payroll changes entered into the computer system be reviewed and evidenced with initials and date by someone other than the preparer.

Management Response:

County Clerk: The payroll process will be changed to have better segregation of duties.

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Criteria: The GAO Standards – Principal 10 – Design Control Activities – 10.03 states part:

Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principal 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process

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SECTION 2—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards*. However, we believe these matters are significant enough to bring to management’s attention. We recommend that management consider these matters and take appropriate corrective action.

Finding 2017-014 – Lack of Internal Controls Over the Schedule of Expenditures of Federal Awards (SEFA) (Repeat Finding)

Condition: The County has not designed and implemented formal internal controls for the reporting of its federal programs as required by federal regulations. During our review and reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) as initially prepared by the County, the following misstatements were noted:

- The actual expenditures for Payments to States in Lieu of Real Estate Taxes CFDA12.112 were \$40,425 and the County reported \$0.
- The actual expenditures for Payments in Lieu of Taxes CFDA 15.226 were \$0 and the County reported \$59,727.
- The actual expenditures for the Disaster Grants-Public Assistance (Presidentially Declared Disasters) CFDA 97.036 were \$57,181 and the County reported \$0.

Reported Total Expenditures of Federal Award	\$216,270
Less: Payments in Lieu of Taxes (CFDA 15.226)	(59,727)
Add: Payments to States in Lieu of Real Estate Taxes (CFDA 12.112)	40,425
Add: Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)	<u>57,181</u>
Actual Federal Expenditures of Federal Awards	<u>254,149</u>
Original SEFA understated by	<u>\$ 37,879</u>

Cause of Condition: Policies and procedures have not been designed and implemented to ensure accurate reporting of expenditures for all federal awards.

Effect of Condition: This condition resulted in an inaccurate reporting of the federal expenditures on the SEFA.

Recommendation: OSAI recommends county officials and department heads gain an understanding of federal programs awarded to Muskogee County. Internal control procedures should be designed and implemented to ensure accurate reporting of expenditures on the SEFA and to ensure compliance with federal requirements.

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Management Response:

Chairman of the Board of County Commissioners: Muskogee County has designated a SEFA representative, and we have a better understanding of the SEFA requirements. The County should be better positioned to ensure accurate reporting for federal programs going forward.

Criteria: *2 CFR § 200.303(a) Internal Controls* reads as follows:

The non-Federal entity must:

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2 CFR § 200.508(b) Auditee responsibilities reads as follows:

The auditee must:

Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements.

2 CFR § 200.510(b) Financial statements reads, in part, as follows:

Schedule of expenditures of Federal awards.

The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended.

Further, GAO Standards – Section 2 – Objective of an Entity - OV2.23 states in part:

Compliance Objective

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.



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